

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION

MINUTES OF MEETING

Wednesday, April 13, 2011

The Board of Administration met on Wednesday, April 13, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 9:22 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Terry McGuire for John Chiang
Richard Costigan
JJ Jelincic
Henry Jones
Grant Boyken for Bill Lockyer
Priya Mathur
Louis F. Moret
Howard Schwartz for Ronald Yank

Board of Administration Members excused: Dan Dunmoyer and Tony Oliveira.

AGENDA ITEM 3 - APPROVAL OF MARCH 2011 MEETING MINUTES

On **MOTION** by George Diehr, **SECONDED** by Henry Jones, and **CARRIED** that the March 16, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 4 - PRESIDENT'S REPORT

President Feckner re-stated CalPERS commitment to strengthening its reputation as a leader in governance. A project is underway to improve the effectiveness of the CalPERS Board by improving oversight, accountability and decision-making functions.

AGENDA ITEM 5 - CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the following items:

 The recently developed Business Plan for 2011-2012 contains objectives and initiatives that are focused on three priority areas:

- Customer Focus transforming customer service to meet the changing needs of CalPERS members and employers
- Leadership and Soundness delivering strong investment results and robust financial reporting, and exercising leadership in pension, health and financial market policy discussions
- Building Internal Strength aligning CalPERS culture with its diversity and inclusion efforts, integrating risk management into the organization and reducing reliance on consultants

A one-page summary of the business plan was made available to Board members and attendees.

Staff Activities:

- On April 4 the first stage of the organizational restructure went live, launching the new Financial and Policy offices.
- CalPERS recently conducted a town hall for its managers and supervisors, as well as four all-staff information sessions to provide updates on changes and respond to staff questions.
- CalPERS this month launched an enhanced financial information section on its website.
- Staff this month completed end-to-end testing for the my|CalPERS project.
 This accomplishment allows Customer Acceptance Testing (CAT) and the final stages of the project to move forward.
- CalPERS staff this month completed meetings with all members of the Senate Public Employment and Retirement and Assembly Public Employees, Retirement and Social Security committees, and continue to provide technical expertise on pension issues.
- Staff submitted a proposed national legislative platform on retirement security to the Benefits and Program Administration Committee (BPAC).
- Thanks to the hard work of Colliers staff and Steve Kessler, Kim Malm and Sharon Garrett, a new retail tenant, Freshii, had its grand opening this week.
- Ms. Stausboll recognized the staff members of the Health Benefits Branch who
 developed a pilot program to integrate the systems of Blue Shield of California,
 Catholic Healthcare West and Hill Physicians Medical Group. The goal was to
 improve health care quality and reduce costs. The combined efforts have led to
 definitive outcome improvements, including a 13 percent reduction in hospital
 stays and a 22 percent reduction in readmissions.

AGENDA ITEM 6 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- As of February 28, 2011 the Total Fund was approximately \$231.4 billion.
- For the one year period ended February 28, 2011, the net rate of return was approximately 16.19%.
- For the fiscal year-to-date period ended February 28, 2011, the net rate of return was 17.15%.

AGENDA ITEM 7 - INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, April 11, 2011.

Additional information may be found in the April 11, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for May 16, 2011 in Sacramento, California.

AGENDA ITEM 8 – AD HOC RISK MANAGEMENT COMMITTEE

Priya Mathur, Vice-Chair, Ad Hoc Risk Management Committee, presented the Committee Summary report to the Board. The Committee met on Monday, April 11, 2011.

Tony Oliveira was elected Chair and Priya Mathur was elected Vice-Chair of the Ad Hoc Risk Management Committee.

Additional information may be found in the April 11, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Ad Hoc Risk Management Committee is scheduled for June 13, 2011 in Sacramento, California.

AGENDA ITEM 9 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

George Diehr, Chair, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, April 12, 2011.

Additional information may be found in the April 12, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Support for AB 344 (Furutani).
- Support for SB 27 (Simitian) with suggested amendments to conform SB 27 with current policies and procedures.
- Neutral on SB 503 (Vargas).
- Adoption of the federal legislative and regulatory policy guidelines for retirement security (Attachment A to Committee agenda) that reflects the amendment requested by the Committee, and directing staff to monitor federal proposals based on these priorities, and seek opportunities to advance the identified goals.
- Approval of the elected Board member percentages of time to be spent on Board-related duties for Fiscal Year 2011-12 as follows:

George Diehr: 98.84%
Rob Feckner: 80%
JJ Jelincic: 100%
Priya Mathur: 60%

On **MOTION** by Committee and **CARRIED** with nay votes by Mr. Boyken and Mr. Jelincic, the Board approved the following:

• Standardizing the language in Resolution Numbers 92-04B-1 and 92-04B-2 so all contracts have a permitted maximum duration of five years.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the June 30, 2010 Judges' Retirement System Actuarial Valuation Report along with changes to the methods and assumptions outlined in the report and continuing to encourage the California Legislature and Governor to adopt an employer contribution schedule that includes advanced funding of the Judges' Retirement System.
- Adoption of the proposed regulation and regulatory amendments to clarify and make specific the requirements for publicly available pay schedule and labor policy or agreement (Attachment C to Committee agenda).

The next meeting of the Benefits and Program Administration Committee is scheduled for May 17, 2011 in Sacramento, California.

AGENDA ITEM 10 - HEALTH BENEFITS COMMITTEE

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, April 12, 2011.

Additional information may be found in the April 12, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Approval of the Long-Term Care Request for Proposal scoring point allocation to reflect forty percent to technical evaluation and on-site visits; thirty percent to financial evaluation; and the remaining thirty percent to the Health Benefits Committee interviews.

The next meeting of the Health Benefits Committee is scheduled for May 17, 2011 in Sacramento, California.

AGENDA ITEM 11 – FINANCE COMMITTEE

Henry Jones, Chair, Finance Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, April 12, 2011.

Additional information may be found in the April 12, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the following:
 - 1. Accept the proposed California Public Employees' Retirement System (CalPERS) FY 2011-12 Administrative Budget of \$334,196,000 and 2,366 positions, and recommend the Board of Administration (Board) approve the budget as a second reading.
 - 2. Accept the proposed CalPERS FY 2011-12 Enterprise Projects Budget of \$43,011,000, and recommend the Board approve the budget as a second reading.
 - 3. Accept the proposed FY 2011-12 CalPERS Headquarters Building Account (Building Account) Budget of \$42,611,000, and recommend the Board approve the budget as a second reading.
 - 4. Approve the transmittal of this agenda item to the Joint Legislative Budget Committee, fiscal committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2010, and to the Legislative Analyst's Office, State and Consumer Services Agency, and the Office of the Legislative Counsel.

The next meeting of the Finance Committee is scheduled for June 14, 2011 in Sacramento, California.

AGENDA ITEM 12 - AD HOC BOARD GOVERNANCE COMMITTEE

The Committee did not meet in April.

AGENDA ITEM 13 - PERFORMANCE AND COMPENSATION COMMITTEE

The Committee did not meet in April.

AGENDA ITEM 14 – BOARD MEETING CALENDAR

No changes were made to the Calendar.

AGENDA ITEM 15 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Karen Ruiz, PSR Project Manager, presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- A major milestone, end-to-end testing, was achieved last week. Customer acceptance testing (CAT) began on April 7.
- The early test group for business partner testing began on March 21, and the financial system integration project acceptance testing began on March 28.
- On the development side, four interface test partners remain behind schedule to close out interface testing.
- The status of data conversion has improved and is now cautionary.
- Project simulation began in March.
- The project team's transition coaches hosted a my|CalPERS experience room last week as part of the all-staff forums, where staff could come through and look at various aspects of the system.
- Constituent meetings for retirement organizations and health organizations were held in the past month.
- The Enterprise Transition Management (ETM) project continued efforts around staff readiness. Managers completed process change discussions with their staff, and training schedules have been finalized.
- The public employers readiness team kicked off training for the staff who will be training business partners.

John Nichols, Project Manager, Accenture, thanked the Accenture and CalPERS team members for all their hard work through the many challenges they faced.

Chris Jasper, KPMG, Project Oversight, extended his congratulations to the Project team for completing the end-to-end test phase in April and commented on the significant improvements achieved in the last year to the PSR application and blended project team. Mr. Jasper cautioned that the schedule is still in the red, and requiring further corrective action to make up for lead activities and to avoid further delays. The Project Oversight team continues to evaluate the pace of the data conversion efforts.

Steve Kessler, Deputy Executive Officer, introduced two CalPERS employees, Angelina Ray and Chris Vega who performed a song entitled "my|CalPERS A New Opportunity," for the Board.

President Feckner extended his congratulations and appreciation to the entire project team for their efforts and positive report. Ms. Mathur commended the team as well.

AGENDA ITEM 16 – EXTERNAL AFFAIRS UPDATE

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

Ms. Macht presented the local elected officials' toolkit that was developed as part
of a project in the business plan. Its purpose is to provide elected officials with
everything about PERS that they'd want to know, including some questions they
should ask as they consider benefit changes. Ms. Macht and Chief Actuary Alan
Milligan were the executive sponsors, and Ken Nitschke of the Program and
Policy Unit did much of the work.

These toolkits have been sent to local government administrators as well as to statewide organizations that represent public employees. A similar toolkit for federal elected officials has been distributed by the Office of Governmental Affairs (GOVA) and CalPERS federal liaison Tom Lussier.

 CalPERS Legal Office and External Affairs have been working together to improve Public Records Act administration. In 2010, CalPERS received over 195 Public Records Act requests. A new web tool has been added to the CalPERS website to facilitate processing of some types of requests. By next year, all Public Records Act requests received will be available online. Ms. Macht introduced Laura Enderton and Anne Marie Trout who will be administering this project.

AGENDA ITEM 17 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

 All four of CalPERS sponsored bills have made it out of the first policy committee, three of which received a 6-0 vote. GOVA staff continue to monitor pension reform and health care related bills.

AGENDA ITEM 18 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- In late March, Mr. Lussier began conducting a series of meetings with every member of the California Congressional delegation with the purpose of educating relevant staff about the issues surrounding the calculation of actuarial liability.
- The Little Hoover Commission report continues to generate questions, as does the Stanford study. The resources developed by CalPERS staff to respond to those questions have proven useful in educating legislators.
- Staff continues to monitor attempts to roll back reforms that were part of either the Affordable Care Act or the Dodd-Frank legislation. Mr. Lussier and Anne Simpson, Corporate Governance, have just completed a round of meetings with officials in the Treasury, Senate Banking, House Financial Services and a couple of key California members who sit on committees of jurisdiction.
- The House Oversight Government Reform Committee has a hearing scheduled on the state of municipal and state debt.
- Secretary of Health and Human Services Sebelius has announced the Administration's Partnership for Patients which is a major initiative to improve care and lower costs for all Americans. The release cited the work of 3 or 4 organizations around the country, one of which was CalPERS. They highlighted the progress of CalPERS integrated health care pilot program.

AGENDA ITEM 19 - PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs and reported on the following:

- A few weeks ago, the financial magazine Pensions and Investments published an editorial about CalPERS Special Review, praising its handling of the issues and for conducting the review and making it public. The Sacramento Bee conducted an on-line poll of that editorial asking the question, "does CalPERS deserve praise?" 68 respondents said "yes".
- CalPERS has recently received positive headlines about its investments, its health care pilot with California Healthcare West and also its contributions to the California economy.

AGENDA ITEM 20 – COMMITTEE DELEGATION OF AUTHORITY

On **MOTION** by Priya Mathur, **SECONDED** by Grant Boyken and **CARRIED**, the Board approved adopting delegation resolutions to make the Ad Hoc Management Committee and the Ad Hoc Board Governance Committee standing committees.

AGENDA ITEM 21 - BOARD TRAVEL APPROVALS

On **MOTION** by Lou Moret, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved the Board travel.

AGENDA ITEM 22 - DRAFT AGENDA FOR May 18, 2011 MEETING

No comments.

AGENDA ITEM 23 – GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

AGENDA ITEM 24 - PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 24A through 24F.

On **MOTION** by George Diehr, **SECONDED** by Lou Moret and **CARRIED**, the Board approved adopting staff's argument on the proposed decisions of Administrative Law Judges for 24A through 24F.

AGENDA ITEM 25 - PUBLIC COMMENT

No public comment.

There being nothing further to come before the Board of Administration, the meeting adjourned at 10:59 a.m.

The next Board of Administration meeting is scheduled for May 18, 2011 in Sacramento, California.

ANNE STAUSBOLL
Chief Executive Officer